

EEC

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To: G.C. Bible
From: Ian C. Sargeant
Subject: Tax Approximation and 1992

Date: 15 September 1988
C.C.: A.G. Buzzi
M.D. Horst

(1) Dec. - LP MB BY HAND TO LP (2) File: TAX HARM

You passed me a note on an article in the Financial Times dated August 22. You are worried, I think, by a suggestion that the EEC could be divided into "fiscal regions" (allowing limited free movement within those regions) and the proposal for a Community-wide system of bonded warehouses within which excise goods could circulate freely.

I think both of these exposures would be fully covered by the labelling directive. We fought hard with other companies to ensure that the industry takes a more positive approach to the labelling directive since it leaves manufacturers with control over the destination of their product. There are strong signs that the labelling directive may be placed on a fast track in the Community's legislative programme though we are also going to do everything in our power to get key amendments to minimise the defacement of trade marks etc. We also need amendments that will avoid producing the same operational problems that we have in the US resulting largely from rotational warnings.

Present labelling arrangements in 10 of the 12 Member States effectively block parallel trade; the proposed directive, in anything like its present form, would consolidate this.

This does not prevent us using free movement arguments on taxation in support of pure specific excise since the labelling directive would not prevent manufacturers from voluntarily choosing to create products that could circulate in more than one market. The point here is that it would be the manufacturer who decided on this and what we continue to avoid is a provision in the labelling directive that forces us to produce cigarettes than can circulate in more than one market. There is no sign, at the moment, of anything going wrong in this regard and we are watching it very carefully.

Regards,

IC
Ian C. Sargeant
15.09.88
ICS/lag

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